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INTERNATIONAL REVIEW

INTERNATIONAL AIR TRANSPORT ASSOCIATION

EXTRACTS FROM THE 1963 ANNUAL REPORT OF
SIR WILLIAM HILDRED, DIRECTOR GENERAL

Equipment and Capacity

Without doubt, the most notable development in the air transport industry in recent years has been the re-equipment program. It is the largest the airlines have ever undertaken; its impact has reverberated throughout the whole structure. It has resulted in massive increases in long-term debt, the size of interest payments, the cost of obsolescence and depreciation, and has affected operating costs and the amount of capacity available. Every airline has felt its impact.

According to the latest figures, IATA members alone have ordered about 1,100 pure jets, of which approximately 800 have already been delivered. These 1,100 jets represent more than a third of the present IATA member operating fleet; but more significant is the fact that their original cost of more than 5,500 million United States dollars and their potential capacity are much greater than the rest of the fleet put together. Jet orders continued to grow during the past year or so and I understand that several hundred additional orders are expected in the next few years as replacement equipment for shorter routes.

Up to 1958, speeds and carrying capacities had increased steadily, but then came the great leap brought about by the turbo-jet. This strongly emphasized the trend towards smaller numbers of larger and faster aircraft, offering higher capacity and potentially lower costs of operation. As a result of this emphasis on larger aircraft, the size of the fleet began a slow decline to 3,161 through 1960 to 1962, after hitting a peak of 3,479 in 1959. At the same time, we saw the share of four-engined aircraft in the fleet total increase from fifty-one per cent in 1957 to sixty-two per cent in 1962. The operation of increasing numbers of larger and faster aircraft also made itself felt in the average number of seats per aircraft in scheduled service which arose from 51.3 in 1957 to 81.6 seats in 1962, and average block speeds which moved from 216 mph to 292 mph. Both averages continue to grow.

Another development we have noticed in this re-equipment period is the way in which turbine-powered aircraft, particularly the pure jets, have dramatically accelerated the obsolescence of piston aircraft. A total of 1,146 piston aircraft have moved out of the fleet in five years. At the same time, 1,154 turbine aircraft, 702 jets and 452 turbo-props have moved in. In 1957, ninety-three per cent of the fleet was piston-powered; by the end of last year, this had dropped to fifty-seven per cent. But more than half of the present payload offering is provided by jets: piston aircraft account for less than twenty-five per cent. As the jets on order are delivered, and more and more of the older aircraft are retired, the higher capacity jets will account for an even greater share of the airlines' available capacity. More and more airline fleets are becoming fully turbine powered; some airlines operate jets only.

At the end of 1962, the operating fleet of IATA members numbered 3,161 aircraft, consisting of 705 pure jets, 627 turbo-props, 1,801 piston-engined aircraft and twenty-eight helicopters.

The public have been quick to accept the jets and to show their preferences for using them. Their speed, increased comfort and interior quietness have strong passenger appeal; their ability to reduce travel times has done much to extend the scope of travel and tourism. To the businessman, the tourist or the government

official with limited time, they are very attractive.

From an airline point of view they have fulfilled their promise and there is no doubt that their introduction has been successful. However, there is one characteristic of these aircraft that has caused problems for the industry and that is their astonishing potential productivity. Every time a jet replaces a piston aircraft at least double the capacity is added. And so capacity increases even if flight frequencies do not. But frequencies have increased on many routes, particularly on those where competition is keenest. So the addition of 1,100 assorted jets represents an incredibly massive injection of capacity.

It is therefore perhaps not surprising that a problem of excess capacity has been associated with this extensive re-equipment by the airlines. By 1961, we were stunned by an oversurplus. Traffic was unable to keep up with the capacity being offered on world routes. In 1962 the airlines were offering eighty-six per cent more capacity than in 1957; but traffic had increased by only sixty-four per cent. A total of 29,720 million tonne-kilometres of capacity were placed on air routes but were matched with only 15,100 million tonne-kilometres of traffic. The result was obvious—lower load factors. By last year, these had reached the lowest level in the entire post-war period. The average scheduled passenger load factor had dropped almost eight points from 61.2 per cent in 1957 to 53.4 per cent; the average weight load factor dropped 6.6 points from 57.4 per cent to 50.8 per cent. We must not overlook the importance of each load factor point. In 1962, one of these points was worth about 118 million United States dollars to the industry. At that rate, it takes only three or four points to make the difference between profit and loss. Higher load factors are therefore the prerequisite to any intelligent solution to the industry's current financial problems.

The heaviest effects have been naturally felt in the international sector. On the most important international route—the North Atlantic—the average load factor dropped resoundingly in 1961 from a satisfactory level of 64.2 per cent in 1960 to 51.2 per cent—a thirteen point drop, a proper clanger. Despite improved traffic growth in 1962 it only crept up less than half a point. But far from stopping there, the average load factor for the first six months of this year has dropped still further to forty-five per cent. Passenger traffic increased by only five per cent.

How much capacity is provided is not my concern—nor the concern of IATA within its constitutional functions. But as an interested observer I am most concerned. I find it amazing to read of carriers intending to increase their North Atlantic frequencies by twenty to forty per cent this year when there is already too much total capacity being provided. One cannot but begin to wonder whether they look at the figures. If there is a good explanation for it I would like to hear it. One might also ask whether some of these additional flights are to be flown as blocked off charters and, if so, how many?

Some of the reduction in load factors is due to the decline in North Atlantic first-class traffic. Not only has its share of scheduled traffic dropped from 23.6 per cent in 1957 to 9.2 per cent in 1962; but in absolute amounts it stands at only two-thirds of its 1960 level with 208,000 first-class passengers. First-class dropped twenty per cent in 1961 and fifteen per cent in 1962. This has played havoc with the first-class load factor, which dropped twenty points from 52.7 per cent in 1960 to 32.3 per cent in 1962. Declining first-class traffic is therefore part of the problem and bears watching. Although the decline in first-class is particularly noticeable on the North Atlantic, it is symptomatic of a trend in the industry in general.

Excess capacity must be seen in proper perspective. The nature of the jet, and the fact that its superiority over older aircraft is so great that co-existence on the same routes is often impossible, means that the changeover, once decided upon, must be complete. The airlines have taken on the capacity expansion of a decade in a matter of months. Their avowed intention is to grow up into this capacity,

like the growing boy wearing his father's jacket. But it is typical of the age of affluence. No city builds an airport just the right size for today's traffic; no architect today builds a new building on an old site the same size; they look years ahead and provide excess capacity in the hope of filling it sooner or later. But right now we are suffering financially.

It is now generally recognized that the jets are capable of operating at lower ton-mile or seat-mile costs. Some years ago, there was a good deal of controversy over this. Obviously operating costs vary a good deal even for the same aircraft and depend on a variety of factors which I shall not go into now. The point is that the jets' lower seat-mile costs can only be realized with high utilization. Any aircraft needs to be operated at a reasonable rate of utilization, but operating these large and high capacity jets at reasonable rates of utilization or merely replacing flights flown by older aircraft, means making available much more capacity on air routes. It is not until this capacity is filled past its breakeven load factor that an aircraft can become *profitable* to operate, no matter how *economical* it is. High utilization and economic load factors are the two essential ingredients to profitable operation. One without the other is not enough. Utilization rates are going up at a satisfactory level. But, as I mentioned earlier, the traffic of many airlines has not increased fast enough to provide sufficiently high load factors to enable the jets in their fleet to earn a profit. Not yet, hence our present troubles with excess capacity. I think the time has come to take a long hard look at the load factor problem and to make a serious attempt to bring capacity utilization back above sixty per cent. Low load factors and their poor financial return are a major stumbling block to lower fares.

The Years Ahead

What of the future growth of air transport? I think the prospects are good. At the end of last year, I forecast that, all being well, the airlines should in 1963 carry about 136 million passengers and perform 148,000 million passenger kilometres and 3,540 million cargo tonne-kilometres. I still think these totals will be realized. Further ahead, the forecasters expect the growth of air travel to tend to level off, whatever the airlines do. It is evident that we cannot expect passenger traffic to grow indefinitely at a level of fifteen per cent. As the base grows in size, the same percentage growth represents greater and greater volume. ICAO passenger traffic forecasts have assumed an average annual rate of growth at nine per cent up to 1967, reaching 190,000 million passenger kilometres; then an annual average increase of five per cent to 1970, with 220,000 million passenger kilometres; and then an average annual growth rate of 4.4 per cent, reaching 250,000 million passenger kilometres in 1973. This represents almost twice the 1962 traffic total. But we must not lose sight of the fact that much less than five per cent of the 3,000 million people living in the world today travel by air. Present traffic (passenger, cargo and mail) is a mere drop in the bucket. The traffic potential is immense and I continue to believe that drastically reduced fares would draw many millions of new passengers to air transport and vastly supersede these forecasts.

What can the airlines do in coming years to bring air transport within the means of vastly greater numbers of the world's population? They can only make substantial reductions in fares once again when they have reached the economic position that will support such a move. Concerted efforts are being directed towards improved operating efficiency, increased load factors, with the objective of improving financial positions. But, at the same time, the airlines cannot forget their obligations with regard to safety and—profits or no profits—they will continue to spend time, money and research on every conceivable project that will ensure it. We have not seen the end of the merging, pooling, cooperation, shotgun weddings and cost cutting that characterize the industry today. Technological innovations and improvements have played a significant role and will continue to do so.

Electronic computers and reservations systems, better ground equipment and facilities will assist the speedy handling of growing traffic volumes. But low fares are the key to any really massive future expansion of the industry; the problem is one of achieving much lower fares with a small margin of profit. This is our objective.